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July 18, 2012

VIA OVERNIGHT DELIVERY

Margo T. Oge, Director
Office of Transportation and Air Quality (6401A)
U.S. Environmental Protection Agency
1200 Pennsylvania Avenue, NW
Washington, DC 20460

RE: Comments to Notice of Proposed Rulemaking: Nonconformance Penalties for On-Highway Heavy Heavy-Duty Diesel Engines (Docket ID No. EPA-HQ-OAR-2011-1000)

Dear Ms. Oge:

Daimler Trucks North America LLC and Detroit Diesel Corporation (collectively "DTNA") file this letter to update the rulemaking docket regarding Navistar's recent switch to selective catalytic reduction ("SCR") technology. On July 6, 2012, Navistar officially announced that it would adopt SCR technology in order to comply with the 2010 oxides of nitrogen ("NO_x") standard.[1]

[1] Navistar Press Release, *Navistar Announces Advanced Clean Engine Technology To Meet Emissions Regulations* (July 6, 2012), http://ir.navistar.com/releasedetail.cfm?ReleaseID=689452 ("Navistar International Corporation (NYSE: NAV) today announced that it will introduce its next generation clean engine solution — In-Cylinder Technology Plus (ICT+) — to meet 2010 U.S. Environmental Protection Agency (EPA) emissions regulations and position the company to meet greenhouse gas (GHG) rules in advance of 2014 and 2017 requirements. The ICT+ technology combines Navistar's advanced in-cylinder engine expertise with urea-based aftertreatment and is expected to be available beginning early 2013.") (Attachment A); *see also* Alejandra Cancino, *Navistar Changing Engines to Meet EPA Standards*, CHICAGOTRIBUNE.COM (July 6, 2012), http://articles.chicagotribune.com/2012-07-06/business/chi-navistar-changing-engines-to-meet-epa-standards-20120706_1_selective-catalytic-reduction-navistar-chairman-daniel-c-ustian ("Truck-and-engine maker Navistar International Corp. said Friday it will change its decade-long approach to pollution control in its diesel engines, mixing its practices with that of its competitors to meet 2010 federal emission standards.") (Attachment B).

Navistar's recent about-face demonstrates what we have said all along: Navistar is not a true technological laggard. As we detailed at length in our previous comments to the nonconformance penalty ("NCP") rulemaking, the evidence shows that Navistar *chose* to forgo SCR technology to gain what it saw as a competitive advantage in the marketplace.[2] But despite that tactical choice, Navistar has always known how to harness SCR technology if it wanted to; it had already been using SCR in some of its Brazilian trucks.[3] In fact, Navistar has highlighted this fact in speaking with the press about its recent switch to SCR: "Navistar . . . said some of its trucks in Brazil already use SCR, giving the company a head start on integrating the system into its North American engine lineup."[4]

Navistar also now admits that its competitors have paved the way, so that adoption of SCR technology does not involve "substantial work": "By incorporating an already proven and certified aftertreatment system, the company looks forward to seamlessly offering production-ready vehicles early next year."[5] Navistar has now publicly confirmed what its competitors have said all along. Meeting the 2010 NO_x standard by using the SCR technology adopted by the rest of the industry does not require substantial work, and by choosing to bet on EGR-only emissions reductions, Navistar was an intentional, economic laggard, not a true technological laggard. Because these essential legal criteria have not been satisfied, establishment of NCPs is unjustified.[6]

We respectfully urge EPA to reconsider its decision to establish NCPs for the 2010 NO_x standard. As we explained in our June 19, 2012 letter, the decision of the U.S. Court of Appeals for the D.C. Circuit in *Mack Trucks, Inc. v. EPA*[7] confirms that the final rule will surely be vacated if the Agency recycles the same rationales that it relied on to support its now-vacated Interim Final Rule. When the D.C. Circuit wrote that "NCPs are likely inappropriate,"[8] Navistar had yet to pivot to SCR technology or boast about how easy it will be to transition to this "already proven and certified

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[2] DTNA NPRM Comments at 6 & n.23.

[3] *Id.*

[4] Bob Tita, *Navistar Reverses Course on Emissions Strategy*, WALL STREET JOURNAL (July 6, 2012), http://online.wsj.com/article/SB10001424052702303684004577510602042441784.html (Attachment C); *see also Navistar Will Add Urea-Based Aftertreatment to Meet Emissions Regulations*, TRUCKINGINFO.COM (July 6, 2012), http://www.truckinginfo.com/news/news-detail.asp?news_id=77438 (quoting Navistar's chairman, president, and CEO Daniel Ustian as saying that a midrange engine for Brazil that uses EGR plus SCR aftertreatment is being introduced now) (Attachment D); Phil Rosenthal, *Fog Seems to Be Lifting at Navistar, Which Will Shift Gears on Its Engine Exhaust Technology*, CHICAGOTRIBUNE.COM (July 7, 2012), http://www.chicagotribune.com/business/columnists/ct-biz-0708-phil-20120707,0,4076957.column ("Ustian . . . noted some of Navistar's trucks in Brazil are already outfitted" with SCR technology.) (Attachment E).

[5] Navistar Press Release, *Navistar Announces Advanced Clean Engine Technology to Meet Emissions Regulations* (Attachment A); Rosenthal, *Fog Seems to Be Lifting at Navistar* ("We're going to take the technology we've developed and add after-treatment to it.") (Attachment E).

[6] DTNA NPRM Comments at 4-8.

[7] 682 F.3d 87 (D.C. Cir. 2012).

[8] *Id.* at 95.

aftertreatment system." Navistar's new tack and public assurances now dispel any doubt about the propriety of NCPs. They are not just "likely" inappropriate; they are "indisputably" so.

But—as we have detailed at length in our previous comments—if EPA elects to issue NCPs, it should at least adhere to its 20-plus years of respecting Congress's "paramount"[9] goal that the amount of a NCP "remove any competitive disadvantage" to compliant manufacturers[10] by increasing—significantly—the NCP amount based on compliant manufacturers' actual cost of developing a new emissions control technology. Now that Navistar is adopting SCR technology, it should be able to provide EPA with its actual costs, similar to the data its competitors have provided. EPA cannot rely on a flawed methodology using a hypothetical baseline engine when actual cost data is available to it. Instead, EPA should adhere to its consistent past practice by using a methodology based on actual cost data, and revise the NCP formula only as necessary to account for the adjusted Upper Limit.

* * *

DTNA would prefer to avoid litigation over the NCP rules in the future. However, that will not be possible unless EPA comprehensively reassesses its approach to NCPs for the 2010 NO_x standard. EPA should take advantage of the clear guidance offered by the D.C. Circuit's opinion in *Mack Trucks* and reconsider its underlying decision to promulgate NCPs for Navistar in the first place, particularly given Navistar's announcement that it is adopting SCR technology, "an already proven and certified aftertreatment system." But if EPA elects to issue NCPs, it must at least significantly increase the NCP amount based on compliant manufacturers' actual cost of developing SCR technology.

Respectfully submitted,

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Partner
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[9] 67 Fed. Reg. 2159, 2169 (Jan. 16, 2002).

[10] CAA § 206(g)(3)(E), 42 U.S.C. § 7525(g)(3)(E).

ATTACHMENT A

NAVISTAR®

July 6, 2012

Navistar Announces Advanced Clean Engine Technology To Meet Emissions Regulations

Company working with EPA, CARB on transition plan

LISLE, Ill., July 6, 2012 /PRNewswire/ -- Navistar International Corporation (NYSE: NAV) today announced that it will introduce its next generation clean engine solution — In-Cylinder Technology Plus (ICT+) — to meet 2010 U.S. Environmental Protection Agency (EPA) emissions regulations and position the company to meet greenhouse gas (GHG) rules in advance of 2014 and 2017 requirements. The ICT+ technology combines Navistar's advanced in-cylinder engine expertise with urea-based aftertreatment and is expected to be available beginning early 2013.

(Logo: http://photos.prnewswire.com/prnh/20120127/MM32830LOGO-a)

"Our distinctive solution will leverage the investment and advancement we've made in clean engine technology while providing immediate certainty for our customers, dealers, employees and investors," said Daniel C. Ustian, Navistar chairman, president and CEO. "We have made tremendous progress with in-cylinder technology and with the introduction of ICT+ our goal is to offer the world's cleanest and most fuel efficient diesel engine—benefiting both our customers and the environment for years to come."

By incorporating an already proven and certified aftertreatment system, the company looks forward to seamlessly offering production-ready vehicles early next year. Furthermore, this approach is expected to provide a clear path to quickly achieving 2017 GHG standards.

The company intends to continue to build and ship current model EPA-compliant trucks in all vehicle classes using appropriate combinations of earned emissions credits and/or non-compliance penalties (NCPs) during the transition to ICT+.

"We've shared our new technology path with the EPA and California Air Resources Board (CARB), and both agencies are encouraged by our plans," Ustian said. "We will continue to work with the agencies to ensure that our customers receive uninterrupted deliveries in all 50 states during this transition."

About Navistar

Navistar International Corporation (NYSE: NAV) is a holding company whose subsidiaries and affiliates produce International® brand commercial and military trucks, MaxxForce® brand diesel engines, IC Bus™ brand school and commercial buses, Monaco® RV brands of recreational vehicles, and Workhorse® brand chassis for motor homes and step vans. It also is a private-label designer and manufacturer of diesel engines for the pickup truck, van and SUV markets. The Company also provides truck and diesel engine service parts. Another affiliate offers financing services. Additional information is available at www.Navistar.com/newsroom.

Cautionary Statement Regarding Forward-Looking Statements

Information provided and statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section27A of the Securities Act of 1933, as amended, Section21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements only speak as of the date of this report and the company assumes no obligation to update the information included in this report. Such forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," or similar expressions. These statements are not guarantees of performance or results and they involve risks, uncertainties, and assumptions. For a further description of these factors, see the risk factors set forth in our filings with the Securities and Exchange Commission, including our annual report on Form 10-K for the fiscal year ended October 31, 2011 and quarterly reports for fiscal 2012. Although we believe that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to above. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events.

SOURCE Navistar International Corporation

Next Generation Engine Technology Update

July 6, 2012

For more than 175 years
we've been helping people from every corner of the world
move the goods that move the welfare of entire nations.

Safe Harbor Statement

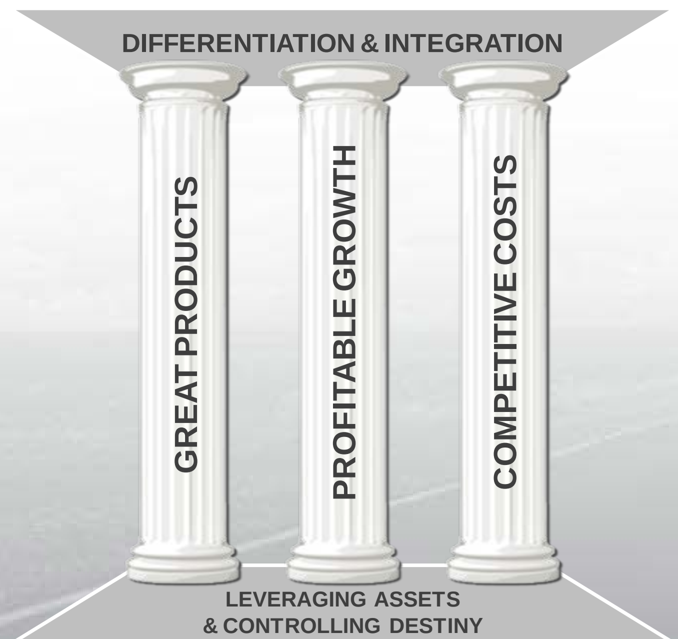
Information provided and statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements only speak as of the date of this report and the company assumes no obligation to update the information included in this report. Such forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," or similar expressions. These statements are not guarantees of performance or results and they involve risks, uncertainties, and assumptions. For a further description of these factors, see the risk factors set forth in our filings with the Securities and Exchange Commission, including our annual report on Form 10-K for the fiscal year ended October 31, 2011 and quarterly reports for fiscal 2012. Although we believe that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to above. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events.

Other Cautionary Notes

- The financial information herein contains audited and unaudited information and has been prepared by management in good faith and based on data currently available to the Company.
- Certain non-GAAP measures are used in this presentation to assist the reader in understanding our core manufacturing business. We believe this information is useful and relevant to assess and measure the performance of our core manufacturing business as it illustrates manufacturing performance without regard to selected historical legacy costs (i.e. pension and other postretirement costs). It also excludes financial services and other items that may not be related to the core manufacturing business or underlying results. Measures may also be adjusted to exclude certain adjustments which are not considered to be part of our ongoing business and are not representative of our underlying performance. Management often uses this information to assess and measure the underlying performance of our operating segments. We have chosen to provide this supplemental information to investors, analysts, and other interested parties to enable them to perform additional analyses of operating results. The non-GAAP numbers are reconciled to the most appropriate GAAP number is in the appendix of this presentation.

Navistar Strategy

Goal of $20 billion in Revenue with $1.8 billion in Manufacturing Segment Profit at 350K unit industry



Global Emission Solutions

- In-cylinder technology (ICT)
  - Air
  - Fuel
  - Control modules
- Liquid-based after-treatment
- Solid state after-treatment (EGNR)
- Reformer
- Hybrid of these technologies

Note: This slide contains non-GAAP information; please see the REG G for a detailed reconciliation.

Global Emission Solutions

ICT

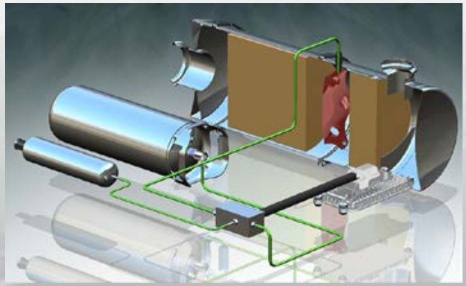
Air

Fuel

Controls

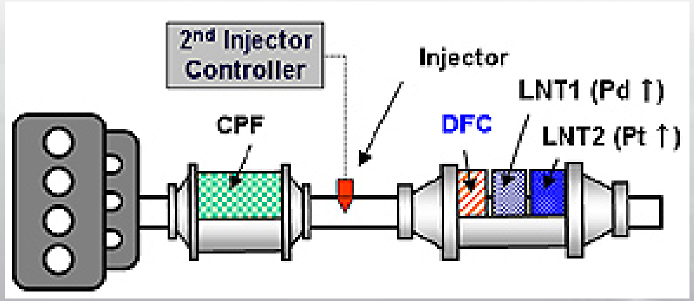
Liquid-based after-treatment

Solid state after-treatment

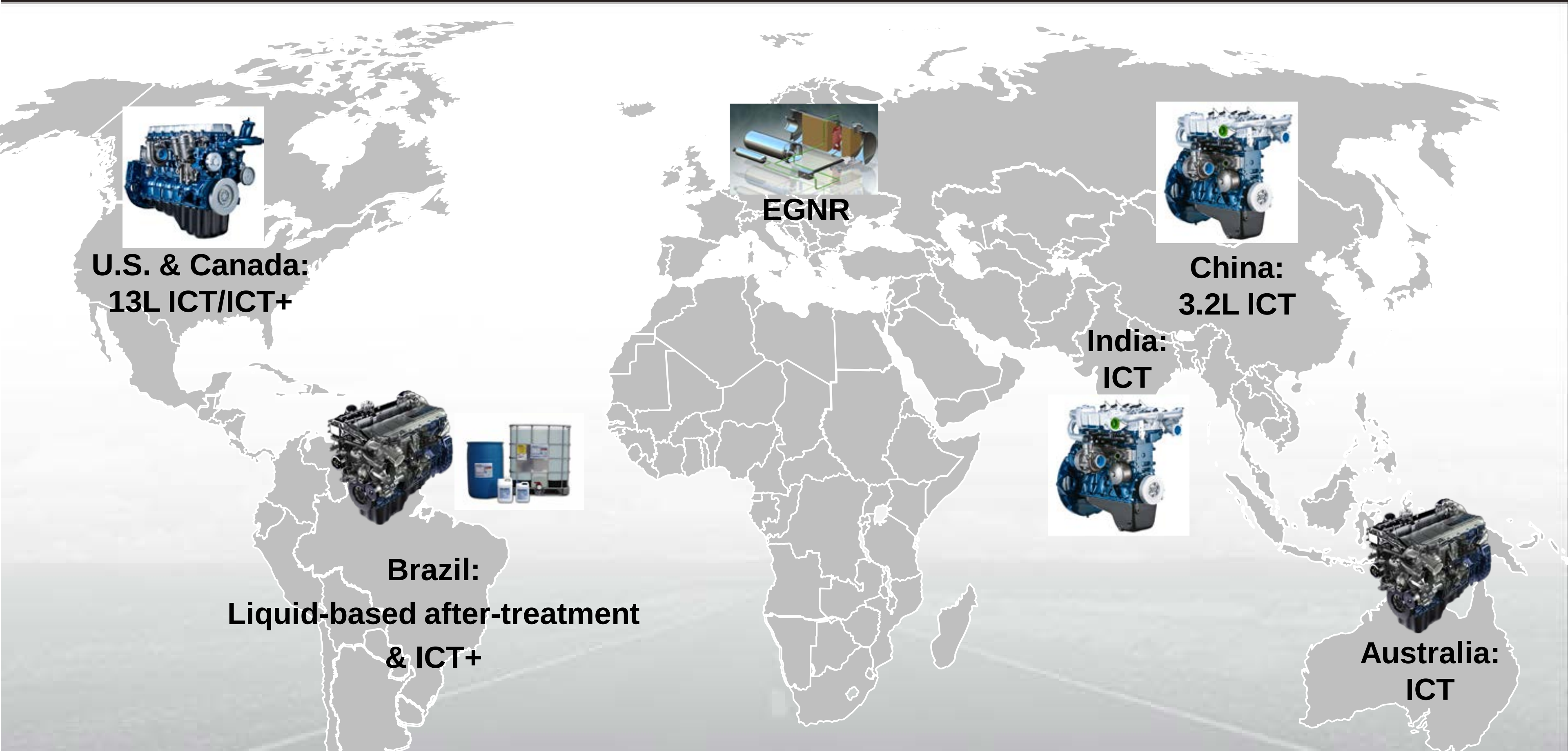


EGNR

Reformer



Basket of Engine Technologies



ICT – in-cylinder technology

+ – ability to use hybrid of after-treatment solutions

ICT+ Timing

- Beginning early 2013 with 13L engine
  - 15L to follow

ICT

+

DuraStar® 4400 Euro V Truck

Liquid based after-treatment

Benefits of ICT+

- Continue developing in-cylinder technology
  - Air/fuel/control modules
- Incorporate liquid based after-treatment = ICT+
- Benefits of ICT+
  - Base engine stays the same
  - Significant fuel economy improvement
  - Capable of exceeding emission regulations








Transition Plan

- Shared new technology path with EPA and CARB
  - Both supportive of direction
- Reviewed status of NCPs and emission credits
  - Understand importance during transition
- EPA and CARB willing to engage immediately in review of:
  - Engine performance
  - Certification time line
  - Discussions on maintaining uninterrupted sales during transition

History of Environmental Leadership

- First smokeless diesel engine

- Natural gas partnerships

Clean Energy

- Only purpose-built electric vehicle

UPS, EPA, Eaton, Navistar Agree: “Hydraulic Hybrid Vehicles Ready for Prime Time”

Red Bull Purchases New International® DuraStar® Hybrid Delivery Trucks

Trucks save 30%-40% fuel costs while reducing CO2 emissions

Collaboration

Navistar Strategy

Goal of $20 billion in Revenue with $1.8 billion in Manufacturing Segment Profit at 350K unit industry

Global Emission Solutions

- In-cylinder technology (ICT)
  - Air
  - Fuel
  - Control modules
- Liquid-based after-treatment
- Solid state after-treatment (EGNR)
- Reformer
- Hybrid of these technologies

Frequently Asked Questions

Q1: While you are working toward a resolution with the EPA, what is the impact on your financial situation and liquidity?

A: We are working diligently to create a path forward with the EPA, which we believe will bring clarity to the market and help us execute our business plan and achieve our goals. At this time, we believe it would be best to allow the process with the EPA to come to completion before we comment further on our financial forecasts. As to liquidity, our current position remains stable, and we believe we have access to additional financing sources if appropriate.

Q2: How long will the transition take, and what will be the impact to your cost structure?

A: In the near term, this will require some additional product development in order to execute the plan and some incremental costs to our products. We do believe that with the attributes we are delivering and the trends in the market place, there will be some opportunity to offset these costs with pricing. Long term, as we fully integrate these technologies across our platforms, we expect to reduce our cost structure and expand our margins.

SEC Regulation G –

Manufacturing Segment Profit at Normalized Annual Rate

	Target
U.S. & Canada Industry	**350,000**
Sales and revenues, net ***(in billions)***	$20 +
(in millions)	
Net income (loss) attributable to Navistar International Corporation	$ 892
Less: Financial services segment profit, Corporate and eliminations, and income taxes	(888)
Manufacturing segment profit	**$ 1,780**

ATTACHMENT B

www.chicagotribune.com/business/breaking/chi-navistar-changing-engines-to-meet-epa-standards-20120706,0,4112016.story

chicagotribune.com

Navistar changing engines to meet EPA standards

By Alejandra Cancino

Tribune staff reporter

11:03 AM CDT, July 6, 2012

Truck-and-engine maker Navistar International Corp. said Friday it will change its decade-long approach to pollution control in its diesel engines, mixing its practices with that of its competitors to meet 2010 federal emission standards.

"This announcement is not about going back, it's not about backing up, it's about going forward," Troy Clarke Navistar's president of Truck and Engine, said in a brief call with investors Friday morning.

The Lisle-based company will use urea to further reduce smog-causing nitrogen oxide from its heavy-duty diesel engines. The new engines, which Navistar said are also expected to meet 2014 and 2017 greenhouse gas standards, are expected to reach the market in early 2013.

The announcement follows a ruling by the U.S. Court of Appeals in June that could prevent the company from selling engines that do not comply with 2010 emission standards.

Basili Alukos, an analyst with Chicago-based Morningstar, said the announcement was disappointing. He had hoped Navistar would buy third-party engines that already meet emission standards and shift its focus to the truck side of the business.

Navistar said it has shared its new technology, called In-Cylinder Technology Plus, with the U.S. Environmental Protection Agency and the California Air Resources Board. Daniel C. Ustian, Navistar chairman, president and chief executive, said the move allows the company to control its own destiny.

The news initially sent Navistar's stock up 4.2 percent to $30 per share in pre-market trading. The stock has since fallen by more than 14 percent, to $24.78 per share, in morning trading.

The company's heavy-duty engines are used in school buses, commercial trucks and other vehicles over 33,000 pounds. In the last decade, the engine maker has spent approximately $700 million developing a technology known as Exhaust Gas Recirculation, or EGR.

Navistar's developed its EGR technology to comply with federal regulations that required a 95 percent drop in the emissions of nitrogen oxide from heavy-duty diesel engines by 2010. The new standard of 0.20 grams of nitrogen oxide per brake-horsepower hour was phased in between 2007 and 2010.

In 2001, the EPA estimated that heavy-duty trucks and buses accounted for about one-third of nitrogen oxides emissions. By reducing nitrogen oxide emissions and other diesel pollutants it expects to prevent 8,300 premature deaths, over 9,500 hospitalizations, and 1.5 million work days lost.

To meet the new standard, Navistar competitors developed products that covert nitrogen oxide into nitrogen, oxygen and water by injecting urea into the exhaust. Volvo has said it spent more than $425 million in the technology, known as Selective Catalytic Reduction, or SCR. Detroit Diesel Corp., an affiliate of Daimler Trucks North America LLC, said it invested about $194 million to expand its Redford Township plant in Michigan and make SCR diesel engines.

Navistar has been bullish about its technology, often stressing that its competitors' approach give customers an unnecessary headache by requiring them to purchase and maintain an additional fluid. But EGR only reduced emissions from 1.2 grams or more per brake horsepower-hour in 2009 to 0.5 grams in 2010 and to as-low-as 0.39 grams in 2011.

To sell its engines after the 2010 deadline, Navistar found a loophole in emission credits, which are set to run out this year. In January, the EPA issued an interim rule, allowing Navistar and other manufacturers to continue selling non-compliant engines as long as they paid a fine of $1,919 per engine. But the agency didn't notify other companies nor allowed them time to comment.

Mack Trucks Inc., a unit of Volvo Group, units of Daimler AG and Cummins Inc. sued the EPA, arguing that the agency was giving preferential treatment to Navistar, that the fines were too low, and that the agency's decision would hurt their sales and prevent them from taking over Navistar's share of the market.

In its defense, the EPA said it had used the "good cause" exception in the Administrative Procedures Act. It needed to act quickly, it reasoned, because Navistar was quickly running out of credits, and without certified engines, Navistar would layoff thousands of employees and would lose billions in revenue, affecting customers and suppliers.

In June, the U.S. Court of Appeals sided with Navistar's competitors and vacated the EPA's interim rule, deciding that the agency didn't have a good cause to leave them in the dark. The interim rule, Judge Janice Rogers Brown wrote for the court, "does not remedy any real emergency at all, save the 'emergency' facing Navistar's bottom line."

Separately, more than 7,600 engines Navistar said it build in 2009 are under investigation. The EPA says Navistar completed assembly in 2010, which means that the engines don't meet the new emission standards and lack EPA certification.

Navistar reported a second-quarter net loss of $172 million, or $2.50 per share. The loss included $104 million in warranty charges to repair engines in vehicles sold in 2010 and 2011. As a result, Navistar cut its full-year earnings outlook to between break-even and $2 per share, down from the $4.25 to $5.25 per share update in March.

NAV data by YCharts

ATTACHMENT C

THE WALL STREET JOURNAL.
WSJ.com

AUTOS | Updated July 6, 2012, 6:21 p.m. ET

Navistar Reverses Course on Emissions Strategy

By BOB TITA

Truck maker Navistar International Corp. said Friday it will adopt antipollution engine technology used by the rest of the industry, shifting from an alternative strategy that has undermined its credibility and share price.

Navistar plans to treat diesel-engine exhaust with a process known as selective catalytic reduction, or SCR. The process, which involves filtering exhaust through a urea solution, will be used in tandem with a treatment technology called exhaust-gas recirculation, or EGR. The combination is used by all truck manufacturers in North America except Navistar, which had planned to rely on EGR alone.

The company's revamped engines won't hit the market until next year, and the transition will require unspecified spending. That uncertainty unnerved investors Friday, as they sent Navistar's stock down 15% to $24.42.

The truck maker expects its 13-liter engine with SCR to reach the market early next year, with a 15-liter version set to follow. SCR components, which Navistar is expected to purchase from an outside supplier, will be added to truck exhaust systems.

"The engines our customers have been buying will stay the same," Chairman and Chief Executive Daniel Ustian said on a conference call with analysts. "We're going to take the technology we've developed and add after treatment to it."

Navistar faces the cost of engineering and integrating SCR into its production processes. Moreover, the SCR-equipped engines must pass muster with federal environmental regulators, an evaluation that is likely to take months.

Navistar's stock has slid 57% over the past year, and the company recently adopted a "poison pill"—an anti-takeover measure—as activist investors, including Carl Icahn, built stakes in the company.

"Given their past history of executing on things, people are skeptical," David Leiker, an analyst for Robert W. Baird & Co. in Milwaukee, said Friday. He said many investors would have preferred that Navistar forgo its own efforts and purchase engines from Cummins Inc. instead.

Navistar, which is based in Lisle, Ill., said some of its trucks in Brazil already use SCR, giving the company a head start on integrating the system into its North American engine lineup.

"We're fortunate to have a portfolio of engine technologies and experiences to deliver what believe will be the cleanest engines and the most fuel-efficient engines," said Troy Clarke, president of the company's truck, engine and parts operations.

Navistar, which manufacturers heavy and medium-duty commercial trucks, school buses and military vehicles, has been trying to meet the U.S. Environmental Protection Agency's 2010 emissions standard by using EGR alone. Navistar bet that it could use a cost advantage on EGR engines to capture market share from its competitors that had opted for the more-expensive SCR system.

But Navistar's inability to obtain EPA certification for its engines after more than two years has eroded customer confidence, causing the company's truck sales to drop in recent months.

Mr. Ustian and other executives had insisted the company wouldn't need SCR to satisfy the EPA's mandate for an ultralow level of smog-causing nitrogen oxide in diesel exhaust. Earlier this year, they predicted production of EPA-approved EGR engines would begin in June.

Analysts said Friday's announcement is an acknowledgment by Navistar that its EGR-only strategy has been a failure.

"They basically threw in the towel on the EGR engine," said Walt Liptak, an analyst for Barrington Research in Chicago. "If they'd done this in the first place, they'd be right where the rest of the industry is."

Navistar's addition of SCR, which was reported earlier this week in The Wall Street Journal, is expected to bring the company's engines into regulatory compliance and ease a two-year-old stalemate between Navistar, the EPA and the California Air Resources Board, which regulates air pollution in California and about 10 other states.

"Both agencies are encouraged by our plans," Mr. Ustian said. "We will continue to work with the agencies to ensure that our customers receive uninterrupted deliveries in all 50 states during this transition."

In the meantime, Navistar said it will continue to sell noncompliant engines and use previously acquired pollution credits, as well as fines, to cover its engines' lack of compliance. But the company will likely have to resort to steep discounts to induce truckers to buy the company's trucks, sacrificing Navistar's profit margins. Navistar has reported two straight quarterly losses stemming from lower truck sales and warranty claims on its new engines.

Write to Bob Tita at robert.tita@dowjones.com

A version of this article appeared July 7, 2012, on page B3 in the U.S. edition of The Wall Street Journal, with the headline: Navistar Reverses Course on Emissions Strategy.

ATTACHMENT D

Truckinginfo
the web site of Heavy Duty Trucking magazine

Print

7/6/2012

Navistar Will Add Urea-Based Aftertreatment to Meet Emissions Regulations

UPDATED -- Navistar International announced this morning that it will add urea-based aftertreatment to its engines with In-Cylinder Technology Plus (ICT+) to meet 2010 Environmental Protection Agency emissions regulations and position the company to meet greenhouse gas rules in advance of 2014 and 2017 requirements.

To be used for diesels in the United States and Canada, ICT+ combines the company's current Advanced Exhaust-Gas Recirculation with liquid urea (diesel exhaust fluid) injection aftreatment similar to that used by competitors. ICT+ will be initially introduced on Navistar's MaxxForce 13 engine in early 2013, with the MaxxForce 15 to follow, said Daniel Ustian, Navistar's chairman, president and CEO.

A midrange engine for Brazil will also use ICT+, and is being introduced now, Ustian said. He and two other executives spoke briefly in a webcast two hours after the announcement this morning.

They said current products will continue for the rest of the year using a combination of previously earned emissions credits and non-conformance penalties for trucks sold in some states. They took no questions about how each of Navistar's midrange and heavy duty engine families will be affected or anything else regarding ICT+.

Navistar originally tried to meet 2010 emissions standards without the use of urea-based aftertreatment, which the rest of the industry has used through selective catalytic reduction to meet the regulations. However, it has struggled to get to the 0.2 NOx level using only its in-cylnder, advanced exhaust gas recirculation solution.

Navistar has fielded 2010-certified diesels that don't quite meet the regulation's absolute limit for NOx, but had thus far been able to meet the regs with the use of emissions credits. Early this year, the agency said it would allow continued sales of heavy-duty engines by means of the company paying non-conformance penalties of about $1,900 per engine. But a federal judge recently threw out that arrangement in a suit brought by competitors, and Navistar has had trouble trying to certify a 13-liter engine that meets the absolute NOx limit of 0.2 gram, compared to 0.5 gram it's producing now.

"Our distinctive solution will leverage the investment and advancement we've made in clean engine technology while providing immediate certainty for our customers, dealers, employees and investors," Ustian said. "We have made tremendous progress with in-cylinder technology and with the introduction of ICT+ our goal is to offer the world's cleanest and most fuel efficient diesel engine, benefiting both our customers and the environment for years to come."

The solution will include "an already proven and certified aftertreatment system," allowing the company to offer production-ready vehicles early next year. The company also says this approach is expected to provide a clear path to quickly achieving 2017 GHG standards.

The company intends to continue to build and ship current model EPA-compliant trucks in all vehicle classes using appropriate combinations of earned emissions credits and/or non-compliance penalties (NCPs) during the transition to ICT+.

"We've shared our new technology path with the EPA and California Air Resources Board (CARB), and both agencies are encouraged by our plans," Ustian said. "We will continue to work with the agencies to ensure that our customers receive uninterrupted deliveries in all 50 states during this transition."

We will provide more details as they become available.

Related Stories:

6/13/2012 Court Rules for Navistar Competitors in Clean Air Case

6/7/2012 Navistar Makes Management Changes After Worse-Than-Expected Second Quarter Results

1/31/2012 EPA Sets Penalties for Emissions Non-Compliance

ATTACHMENT E

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Fog seems to be lifting at Navistar, which will shift gears on its engine exhaust technology

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There's a price to be paid for blowing too much smoke, as Navistar International and anyone following its travails should know all too well by now.

The anti-pollution technology the Lisle-based truck- and engine-maker has been banking on for years? The one it invested about $700 million in over the last decade or so? The one that would differentiate it from all its North American rivals? The one that has yet to meet 2010 Environmental Protection Agency standards? (Cough.) Never mind.

Its share price already in steep decline and activist shareholders circling, Navistar said Friday that it will reduce its diesel heavy-duty engine exhaust pollutants by adopting the same after-treatment process its competitors all embraced earlier.

"(This) announcement is not about going back," Troy Clarke, Navistar's new truck and engine division head, said in a quick investor presentation Friday. "It's not about backing up. It's about going forward."

Analysts — some of whom interrupted post-July 4 vacations to listen to the presentation, which was announced only three days earlier — might have wondered what the heck Clarke was talking about. Management, however, ended the call without inviting the usual round of questions.

One immediate direction was neither forward nor back. It was down. Navistar shares fell 15.18 percent Friday.

"They didn't allow for questions in part, I think, because people would have been saying, 'What are you talking about?'" Walter Liptak, an analyst with Chicago's Barrington Research, said in an interview. "They threw in the towel, and now they're going with (the conventional approach). And, if you want to Monday-morning quarterback, you can say they should have done this in 2006 or 2007 when the rest of the industry did, and then they wouldn't be in this mess."

So much for zigging when everybody else zagged. The company's market cap has fallen by more than half over the last year, earnings fell short of expectations for the past two quarters, and investors and truck buyers alike are left to scratch their heads as to what's to become of an Illinois institution with a history of booms and busts that dates to the mid-1800s.

Navistar Chief Executive Dan Ustian had long touted exhaust-gas recirculation, or EGR. Rivals embraced selective catalytic reduction, or SCR, which further filters the exhaust. SCR is more costly, and Ustian has steadfastly touted the price advantage as an opportunity to increase market share. Until now.

"We're going to take the technology we've developed and add after-treatment to it," Ustian said on the analyst call, which set a target of early next year for the change and noted some of Navistar's trucks in Brazil are already outfitted this way.

"They're kicking the ball down the road," Ann Duignan, an analyst at JPMorgan Chase & Co., said by phone. "They're saying they'll have the engines ready for production in early 2013, but that may be a stretch at this point."

David Leiker of Robert W. Baird & Co. in Milwaukee takes Navistar at its word but is not surprised some would be skeptical.

"There's obviously a little leap of faith required because they haven't delivered on what they've been telling people they're going to do," Leiker said. "But the path that they're changing from is taking technology they're trying create to adopting technology that everyone else is using. That path is a lot easier to follow."

Leiker noted that Navistar's current engines might be able to meet the emissions standard if fuel economy weren't also an issue. The company has been offsetting its noncompliance previously with pollution credits. The credits are set to run out after this year, and the EPA had proposed a fine of $1,919 per engine sold. But competitors objected and a ruling by the U.S. Court of Appeals last month threatened its ability to sell noncompliant engines, which pushed Navistar to move.

"It wasn't a total failure in that, if you go back five years ago, they … just had medium-duty engines," Liptak said. "Now they've got their own engines. They'll have to apply SCR to them and they won't be as differentiated. There obviously will be (research and development) and design costs that go into it. They're going to have to pay penalties until they get that engine certified and their customers are probably scratching their heads about why they didn't do this in the first place, which is what really counts."

Duignan, who has been pressing Ustian for some time on the EPA issue, isn't surprised with the latest move. Although buying engines from rivalCummins Inc.might have been a smoother move, it would have been expensive.

Navistar already "invested tens of millions of dollars in their engine facility and their engineering," she said. "They recently reopened a forging operation to support the engine facility. So had they gone to Cummins, they would have been faced with a significant write-off."

Speculation of a potential takeover by, say, Volkswagen or Fiat Industrial usually comes apart over the costs of absorbing Navistar's pension, health care and other legacy costs — never mind the noncompliant engines. Meanwhile, the struggling company has adopted a poison pill strategy to hold off activist investors, including Carl Icahn and Mark Rachesky, who have been grabbing shares.

"Clearly the board is supportive of Dan Ustian right now," Duignan said. "But this is the board that allowed (the company) to pursue the EGR strategy to begin with, and that's always been my issue with the company from an investor's standpoint."

Duignan would have liked to have asked Ustian, Clarke and company how much they expect all of this will wind up costing, and how they expect to pay for it. If noncompliance "fines going forward are going to have to be punitive, liquidity is a risk and they made the point that they had options to raise capital but they didn't say how," she said. "Are they going to dilute equity holders? Or are they going to go to the debt market?"

For all the unanswered questions, however, Duignan does see at least one point clearly, albeit in the fine print of company filings.

"Ustian gets nothing if he's fired for cause," she said. "He gets $18 million if there's a change in ownership."

That's a big incentive for Ustian to find a way to clear the air.

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